

AMENDED IN SENATE APRIL 30, 2012

AMENDED IN SENATE MARCH 29, 2012

**SENATE BILL**

**No. 1259**

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**Introduced by Senator Emmerson**

February 23, 2012

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An act to ~~amend Section 4652.5~~ *add and repeal Section 4652.6* of the Welfare and Institutions Code, relating to developmental disabilities.

LEGISLATIVE COUNSEL'S DIGEST

SB 1259, as amended, Emmerson. Developmental disabilities: regional centers.

Existing law, the Lanterman Developmental Disabilities Services Act, requires the State Department of Developmental Services to enter into 5-year contracts with regional centers to render specified services. The act requires an entity receiving payments of \$250,000 or more, but not more than \$500,000, from a regional center to obtain either an independent audit or independent review report of its financial statements for the period. An entity receiving payments of \$500,000 or more is required to obtain an independent audit. Existing law requires a copy of the audit or report to be provided to the vendoring regional center within 30 days of completion of the audit or review.

This bill would ~~instead require, for fiscal years ending on or after July 1, 2011, that an entity that receives payments of at least \$2,000,000 obtain an independent audit of its financial statements and provide a copy to the vendoring regional center within 9 months of the end of the entity's fiscal year. The bill would also require the department to randomly select entities that are subject to, but fail to meet, the audit requirements and perform a billing audit of the selected entities, until July 1, 2016, authorize exemptions from the above-described~~

*independent audit or review requirements of one or 2 years, if specified conditions are met.*

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

1     *SECTION 1. Section 4652.6 is added to the Welfare and*  
2     *Institutions Code, to read:*

3     4652.6. (a) *Notwithstanding Section 4652.5, an entity that is*  
4     *subject to the independent audit or review requirements of Section*  
5     *4652.5 because the entity receives payments from one or more*  
6     *regional centers of an amount that is at a minimum of two hundred*  
7     *fifty thousand dollars (\$250,000), but not more than one million*  
8     *dollars (\$1,000,000), may apply to the regional center for an*  
9     *exemption from the independent audit and independent review*  
10    *requirements, subject to all of the following conditions:*

11    (1) *If the independent audit for the prior year resulted in an*  
12    *unqualified opinion or an unqualified opinion with explanatory*  
13    *language, the entity shall receive a two-year exemption.*

14    (2) *If the independent audit for the prior year resulted in a*  
15    *qualified opinion and the regional center determines that material*  
16    *issues raised in the independent audit do not have an impact on*  
17    *regional center-funded services, the entity shall receive a one-year*  
18    *exemption. However, the entity and the regional center shall*  
19    *continue to address issues raised in this independent audit,*  
20    *regardless of whether the exemption is granted.*

21    (b) *Notwithstanding Section 4652.5, an entity that is subject to*  
22    *the independent review requirements of Section 4652.5 because*  
23    *the entity receives payments from one or more regional centers of*  
24    *an amount that is at a minimum of two hundred fifty thousand*  
25    *dollars (\$250,000), but less than five hundred thousand dollars*  
26    *(\$500,000), may apply to the regional center for, and obtain, a*  
27    *two-year exemption from the independent review requirement if*  
28    *the regional center does not find issues that have an impact on*  
29    *regional center services in the prior year's independent review.*

30    (c) *Regional centers shall notify the department of any*  
31    *exemption granted to an entity that is the subject of a qualified*  
32    *opinion report.*

1     ~~(d) This section shall become inoperative on July 1, 2016, and,~~  
2     ~~as of January 1, 2017, is repealed, unless a later enacted statute,~~  
3     ~~that becomes operative on or before January 1, 2017, deletes or~~  
4     ~~extends the dates on which it becomes inoperative and is repealed.~~

5     ~~SECTION 1. Section 4652.5 of the Welfare and Institutions~~  
6     ~~Code is amended to read:~~

7     ~~4652.5. (a) (1) For fiscal years ending on or after July 1, 2011,~~  
8     ~~an entity that receives payments from one or more regional centers~~  
9     ~~shall contract with an independent accounting firm to obtain an~~  
10    ~~independent audit of its financial statements when the amount~~  
11    ~~received from the regional center or regional centers during the~~  
12    ~~entity's fiscal year is at a minimum of two million dollars~~  
13    ~~(\$2,000,000).~~

14    ~~(2) This requirement does not apply to payments made using~~  
15    ~~usual and customary rates, as defined by Title 17 of the California~~  
16    ~~Code of Regulations, for services provided by regional centers.~~

17    ~~(3) This requirement does not apply to state and local~~  
18    ~~governmental agencies, the University of California, or the~~  
19    ~~California State University.~~

20    ~~(b) An entity subject to subdivision (a) shall provide copies of~~  
21    ~~the independent audit required by subdivision (a), and~~  
22    ~~accompanying management letters, to the vendoring regional center~~  
23    ~~within nine months of the end of the entity's fiscal year for which~~  
24    ~~the audit is required.~~

25    ~~(c) Regional centers receiving the audit reports required by~~  
26    ~~subdivision (b) shall review and require resolution by the entity~~  
27    ~~for issues identified in the report that have an impact on regional~~  
28    ~~center services. Regional centers shall take appropriate action, up~~  
29    ~~to termination of vendorization, for lack of adequate resolution of~~  
30    ~~issues.~~

31    ~~(d) Regional centers shall notify the department of all qualified~~  
32    ~~opinion reports or reports noting significant issues that directly or~~  
33    ~~indirectly impact regional center services within 30 days after~~  
34    ~~receipt. Notification shall include a plan for resolution of issues.~~

35    ~~(e) For purposes of this section, an independent audit of financial~~  
36    ~~statements shall be performed by an independent accounting firm~~  
37    ~~and shall cover, at a minimum, all of the following:~~

38    ~~(1) An inquiry as to the entity's accounting principles and~~  
39    ~~practices and methods used in applying them.~~

1     ~~(2) An inquiry as to the entity's procedures for recording,~~  
2     ~~classifying, and summarizing transactions and accumulating~~  
3     ~~information.~~

4     ~~(3) Analytical procedures designed to identify relationships or~~  
5     ~~items that appear to be unusual.~~

6     ~~(4) An inquiry about budgetary actions taken at meetings of the~~  
7     ~~board of directors or other comparable meetings.~~

8     ~~(5) An inquiry about whether the financial statements have been~~  
9     ~~properly prepared in conformity with generally accepted accounting~~  
10    ~~principles and whether any events subsequent to the date of the~~  
11    ~~financial statements would have a material effect on the statements~~  
12    ~~under review.~~

13    ~~(6) Working papers prepared in connection with a review of~~  
14    ~~financial statements describing the items covered as well as any~~  
15    ~~unusual items, including their disposition.~~

16    ~~(f) The department shall, in the course of its normal audits,~~  
17    ~~randomly select entities that are subject to, but fail to meet the~~  
18    ~~requirements of, this section and perform a billing audit.~~

19    ~~(g) The department shall, in the course of its normal audits, not~~  
20    ~~consider a request for adjustments to rates submitted in accordance~~  
21    ~~with Title 17 of the California Code of Regulations by an entity~~  
22    ~~receiving payments from one or more regional centers solely to~~  
23    ~~fund either anticipated or unanticipated changes required to comply~~  
24    ~~with this section.~~